

OverSight Division

Committee On Legislative Research

PROGRAM EVALUATION
COMMUNITY INITIATIVES

Program Evaluation Community Initiatives

*Prepared for the Committee on Legislative Research
by the Oversight Division*

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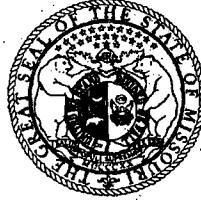
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STATE CAPITOL
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January 30, 2002

Members of the General Assembly:

As authorized by Chapter 23, RSMo, the Committee on Legislative Research adopted a resolution on May 14, 2001 directing the Oversight Division to perform a program evaluation of the Community Initiatives within the state which included the examination of records and procedures in the Department of Social Services to determine and evaluate procedures in accordance with the objectives, responsibilities, and duties as set forth by statute or regulation.

The accompanying report includes Oversight's comments on internal controls, compliance with legal requirements, management practices, program performance and related areas. We hope this information is helpful and can be used in a constructive manner for the betterment of the state program to which it relates.

Respectfully,

A handwritten signature in black ink that reads "Larry Rohrbach".

Senator Larry Rohrbach
Chairman

EXECUTIVE SUMMARY

Community Initiatives is a program within the Department of Social Services' Division of Family Services that is associated with welfare reform efforts. Before FY 2002, Community Initiatives was called Work First and the program was under the Office of the Director for budget purposes. According to the Department of Social Services, their goal in reforming the state's welfare system is to prevent, reduce, and end the cycle of welfare dependency. To accomplish their goal, the Division of Family Services (DFS) contracts with providers to deliver services to needy clients. The Department believes that their most effective tool in constructing effective welfare reform is flexible funding and, as a result, the Governor and Legislature created the Work First appropriation in fiscal year 1998. Expenditures from the Work First/Community Initiatives appropriation for the past four fiscal years have been \$18.7 million in FY 1998, \$27.3 million in FY 1999, \$28.5 million in FY 2000, and \$27.0 million in FY 2001. One of the major funding streams for the Work First Pool is the Temporary Assistance for Needy Families (TANF) Block Grant.

Oversight struggled to define "Community Initiatives" throughout the review. It is difficult to label Community Initiatives as a "program" or a series of "programs" because the DFS has strayed from the key objective of getting people off welfare by spending money from the appropriation on unrelated programs. During the course of the evaluation, with the advice of DFS and Senate Appropriations staff, Oversight labeled Community Initiatives as an appropriation/funding stream. Programs such as Grandparents as Foster Parents and Aging, which have loose connections to welfare at best, were subsidized with the Community Initiatives appropriation. In addition, eight of the programs funded from the Community Initiatives appropriation had their own line-item appropriations elsewhere in the Department of Social Services' budget – making total program costs difficult to measure.

The DFS has not properly overseen their contracts. They have not verified that services were performed or monies were spent for intended purposes. They have also failed to properly evaluate whether the expenditure of funds has resulted in accomplishment of preventing, reducing and ending the cycle of welfare dependency. Performance of these basic administrative functions would serve as a foundation for future funding decisions.

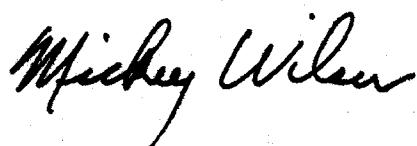
The DFS circumvented the statutory competitive bid process when they contracted with Southeast Missouri State University (SEMO) for the period October 1, 1998, through September 30, 2000, for services known as the Bootheel Initiatives. SEMO functioned as an intermediary between the vendors providing the services and the DFS. This arrangement created unnecessary administrative expenses – 25% of the total contract amount was kept by SEMO for program administration, expenses directly chargeable to the contract, and indirect costs. Oversight also questions whether or not financial improprieties occurred in the organization of one of the Bootheel providers. From the limited amount of information that was shared with Oversight staff, enough red flags were revealed that warrant an investigation, of the provider, by the Department of Social Services.

The DFS has transferred fiduciary and decision-making authority in Jackson County to Greater K.C. LINC, Inc. (LINC), a not-for-profit corporation. While the Department believes they are accomplishing results with this innovative system design, the Oversight Division takes issue with several facets of the arrangement.

1. DFS is double-paying LINC for administrative expenses by paying for LINC's administrative infrastructure in addition to paying administrative fees. For FY 2000 and 2001, the DFS paid LINC roughly \$2.6 million for administrative activities, which is more than 17% of the total paid to LINC, from the Community Initiatives appropriation, for that period. Federal Regulations states that not more than 5% of the aggregate funds should be expended for administrative activities. What makes the double-paying of administrative expenses more questionable is the fact that LINC, a non-profit corporation, had a healthy fund balance of \$9.3 million and an overall net profit of \$1.9 million for the year ended June 30, 2000.
2. The Executive Director of LINC is a state employee working in an unclassified position. The Executive Director signed and negotiated contracts between LINC and the Department of Social Services during our evaluation period. LINC has also donated money to the Department for the Executive Director's salary. Oversight believes this relationship is a conflict of interest and also questions whether state ethics laws are being violated.

The DFS doesn't require or review data that would assist them in determining the best allocation of resources throughout its service areas. Consequently, Community Initiatives program expenditures for Fiscal Year 2001 were not effectively distributed across the state. The ratio of expenditures to TANF recipients, by service area, indicates that Jackson County was grossly over-funded while Southwest Missouri and St. Louis City and County were under-funded.

The Oversight Division did not audit departmental financial statements and, accordingly does not express an opinion on them. Oversight wishes to acknowledge the cooperation and assistance of staff of the Department of Social Services during the evaluation process.



Mickey Wilson, CPA
Acting Director

Chapter 1 - Introduction

The Joint Committee on Legislative Research directed the Oversight Division to conduct a program evaluation of the Department of Social Services' Community Initiatives appropriation to determine how the money has been spent and if the program achieved the goal of self-sufficiency for those persons on welfare or at-risk of going on welfare.

Background

Community Initiatives is a program within the Department of Social Services' Division of Family Services that is associated with welfare reform efforts. Before FY 2002, Community Initiatives was called Work First and the program was under the Office of the Director for budget purposes. According to the Department of Social Services, their goal in reforming the state's welfare system is to prevent, reduce, and end the cycle of welfare dependency. The Department believes that its most effective tool in constructing effective welfare reform is flexible funding and, as a result, the Governor and Legislature created the Work First appropriation in fiscal year 1998. One of the major funding streams for the Work First Pool is the Temporary Assistance for Needy Families (TANF) Block Grant. This block grant is capped at \$217 million.

Objectives

The primary focus of the evaluation is to provide the General Assembly with information regarding how well the Department of Social Services is administering the relatively new appropriation for welfare reform. Specifically, Oversight staff concentrated on four primary objectives:

- To determine if the distribution of funds, statewide, is equitable.
- To evaluate the efficiency of the program dollars spent for the Community Initiatives appropriation.
- To determine the degree to which the Department of Social Services measures the effectiveness of the Community Initiatives appropriation.
- To determine if the contract(s) for the Bootheel Initiative were competitively bid.

Scope/Methodology

The scope of the evaluation included all expenditures, contracting, and related program procedures for the Work First/Community Initiatives appropriation for the period July 1, 1998, through June 30, 2001. The methodology used by the Oversight Division included tests of samples of transactions and evaluations of management controls to the extent necessary to fulfill audit objectives. A primary method used to measure objectives was conducting personal

OVERSIGHT DIVISION
Program Evaluation
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interviews with agency personnel. Additionally, Oversight staff performed on-site testing of controls and procedures. The Department of Social Services provided documentation as requested.

Chapter 2: Findings / Recommendations

Comment #1 - The Office of Administration - Division of Purchasing and Materials Management does not require potential vendors to submit proof that they are registered with the Secretary of State's Office, Department of Revenue, and the Division of Employment Security during the competitive bid process.

A nonprofit corporation was awarded a contract and began providing services for the Division of Family Services (DFS) in February 2001. Approximately two weeks into the performance of the contract, the Department of Social Services (DSS) was notified that the contractor was not in good standing with the Secretary of State's Office, not registered with the Department of Revenue for tax withholding, and not registered with the Department of Labor and Industrial Relations - Division of Employment Security for unemployment compensation insurance.

In response to the notification, action was taken by the Division of Purchasing and Materials Management (DPMM) to ensure that the contractor registered and restored good standing with the Secretary of State's Office and the State of Missouri prior to any further service authorization and payment for services.

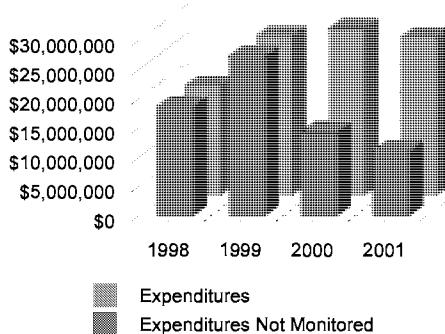
While the Terms and Conditions of the Request for Proposal (RFP) state that the contractor must be registered and maintain good standing with the Secretary of State's Office and other regulatory agencies, the DPMM does not require proof of such.

The Oversight Division recommends that the DPMM revise the Terms and Conditions section for RFPs to include language that requires offerors to submit proof that they are in good standing with the Secretary of State's Office and properly registered with the Department of Revenue and the Division of Employment Security.

Comment #2 - The Division of Family Services (DFS) does not actively monitor performance measures for several programs within the Community Initiatives appropriation.

DFS utilizes state and federal funding through the Community Initiatives appropriation on an array of programs aimed directly and indirectly toward moving people off welfare. Expenditures in the past four fiscal years have been \$18.7 million in FY 1998, \$27.3 million in FY 1999, \$28.5 million in FY 2000, and \$27.0 million in FY 2001.

Lack of Performance Monitoring



The DFS acknowledged that, in Fiscal Years 1998 and 1999, there were no performance measures used in the monitoring of the Community Initiatives programs due to the newness of the program. In Fiscal Years 2000 and 2001, the DFS began implementing performance measures for some of the programs; however, various programs within the appropriation still were not monitored. The DFS also acknowledged that no performance monitoring was conducted for the programs operated by LINC and ARCHS, both Caring Communities partnerships. In addition, DFS acknowledged that no performance monitoring was conducted for the Bootheel Initiative programs that were subcontracted through Southeast Missouri State University.

The graph depicts total program expenditures compared to the amount of expenditures for which no monitoring of performance was conducted. It should be noted that if even the slightest effort was made to monitor performance, the respective expenditure amount was considered to be monitored.

As recently as FY 2001, performance measure standards were observed in roughly half of the Community Initiatives vendor contracts.

The Oversight Division recommends that the DFS implement performance expectation language in all of their Community Initiatives contracts. The Oversight Division further recommends that the DFS verify monies are being spent for the intended purpose and results are being achieved. The DFS should examine records of contractors and subcontractors sporadically on a sample basis.

The Oversight Division offers the following broad-based performance measures that could be applied to all of the Community Initiatives programs.

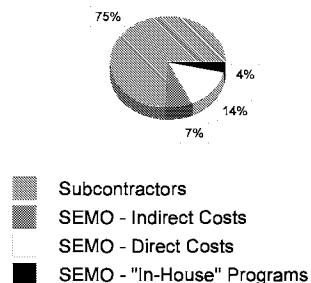
- Who is being served by the program/expenditure?
 - How many people are being served by the expenditure?
 - Are the participants of the “target population” (those that were intended to be assisted) actually being assisted?
 - How much funding is utilized per participant?
- How are the programs/expenditures helping people to become and remain self-sufficient? How is the program promoting the end of the dependency upon welfare?
 - How is the program assisting the participants?
 - Are the participants in the program successful at completing the program?

Comment #3 - The DFS circumvented the statutory competitive bid process when they contracted with Southeast Missouri State University.

The DFS entered into a contract directly with Southeast Missouri State University (SEMO) for the period October 1, 1998, through September 30, 2000, for services known as the Bootheel Initiatives project. DFS is statutorily allowed to contract directly with SEMO for services; however, in this case, SEMO, in turn, subcontracted with numerous vendors (including issuing RFPs) for service delivery. In effect, SEMO acted as an intermediary

DFS Contract with SEMO

How \$2,753,168 Was Spent



between the vendors providing the service and the DFS.

The DFS paid SEMO \$2.75 million for contractual services during the two-year contract period. SEMO subcontracted with vendors for \$2,055,180 worth of services, which equates to 75% of the total contract amount. The remaining 25% of the contract amount (\$697,987) was kept by SEMO for program administration, expenses directly chargeable to the contract and indirect costs.

A significant amount of money, relative to the total contract amount, was used to pay for SEMO's direct and indirect costs. In addition, some of SEMO's subcontractors also retained a portion of their payments for indirect costs. The Oversight Division contends that more of the appropriation could have been used to provide direct client services had the DFS competitively bid the contract. In addition, competitive bidding allows all vendors to participate in state business – DFS may have received a better and lower priced bid for the project.

Statutory authority in RSMo 34.046 and subsequent delegation of authority, by the commissioner of administration, allows state agencies to contract directly with other governmental entities, without using the competitive bid process for the purchase of supplies. RSMo 34.046 does not statutorily allow state agencies to contract directly with another governmental entity who will, in turn, subcontract for services, which is what SEMO did.

The Oversight Division recommends that the DFS avoid contracting with an intermediary party, like SEMO, in an effort to reduce administrative costs. The Oversight Division also recommends that the DFS follow the competitive bid process in awarding future contracts.

Comment #4 - To minimize the risk of paying false claims, the DFS should tighten its procedure for paying Case Management incentive bonuses by revising the language in future Requests for Proposals for Case Management.

The DFS entered into a contract with 41 vendors during Fiscal Years 2000 and 2001 to provide Case Management services; whereby, the vendors provide services to DFS clients (not to exceed 12 months) such as job training, job search activities, and education with the ultimate goal being to place each client in a full-time unsubsidized employment position.

The DFS agreed to pay each vendor a standard amount of \$1,800 per client for Case Management services. Vendors would then invoice the DFS \$150 per month for each month the client was receiving Case Management services from the vendor. The DFS set up a system of rewards used as an incentive for the vendors to help the client gain and retain employment. Once the client gained full-time unsubsidized employment, the DFS would pay half of the \$1,800 balance. If the client achieved employment within 60 days of signing their self-sufficiency pact, the vendor received a one-time (\$500) incentive bonus. If the client retains employment for 30 consecutive days, the vendor is allowed to bill the DFS for the remainder of the \$1,800 bonus. The DFS also pays one-time incentive bonuses (\$250 and \$500, respectively) to the vendor if the client retains employment for 90 and 180 consecutive days. The Oversight Division tested a sample of incentive bonuses paid to six Case Management vendors and found that the DFS' approval and denial of claims were appropriate. Oversight did note the following areas of concern:

1. None of the employers submitted paycheck stubs as proof of employment.
2. Employers design their own employee verification form.
3. Employers did not always sign and/or date the verification form.

The failure of employers to sign verification forms creates substantial doubt of whether the form is authentic. The lack of a submitted pay stub also implies a level of uncertainty of authenticity because a pay stub is an independent, external document that is very difficult to falsify. The lack of a date next to the employer's signature creates inherent doubt as to when the employer is actually

confirming the client is employed. For the longer 90 and 180-day incentives, without an employer's date, there is no evidence that the client has been employed as of a certain, required date. The lack of a uniform employment verification form produces risks of inaccurate and inconsistent information that is used to pay incentive bonuses. All of the aforementioned risks contribute to the possibility that the DFS could be paying a significant amount in incentive bonuses that should not be paid.

Spending under the Case Management contract has averaged approximately \$2.8 million over the last three fiscal years. The DFS was unable to provide aggregate or detailed figures of incentive bonuses that were paid at \$250 (90-day incentives) and \$500 (60 and 180-day bonuses) per client. However, the large number of clients who have the potential to qualify for these incentive bonuses is material enough to account for a significant portion of the yearly Case Management expenditures. Therefore, the undeniable possibility exists that the DFS could pay a significant amount for incentive bonuses that are not substantiated by adequate or accurate verification.

During our evaluation period, two separate contracts governed the administration of Case Management – one for residents of Jackson County and another for individuals residing outside of Jackson County. Oversight believes both contracts contained language that should be strengthened regarding the documentation requirements for verification of employment prior to payment of incentive bonuses.

The Oversight Division recommends the DFS revise the language, as it relates to payment of incentive bonuses, in future Requests for Proposals for Case Management to include the following requirements:

- Employers must sign and date the employment verification form.
- Paycheck stubs should accompany all claims for incentive bonuses.

The Oversight Division also recommends the DFS create a uniform employment verification form to be used by all employers.

Comment #5 - Some of the programs that were funded from the Community Initiatives appropriation had their own line-item appropriation elsewhere in the Department of Social Services budget, making total program costs difficult to measure.

Eight programs that were funded from the Community Initiatives appropriation for Fiscal Years 1998 through 2001 also had their own line-item appropriations elsewhere in the Department of Social Services' budget. For example, expenditures were made for child care services from the Community Initiatives appropriation even though a separate line item for child care services already existed in the budget for fiscal years 1998 through 2001. The description of the already existing budget line item was "for the purpose of funding Child Care Services for recipients of programs funded by the Temporary Assistance for Needy Families Block Grant, those who would be at risk of being eligible for Temporary Assistance for Needy Families and low-income families ..." This specific program was appropriated for \$90.4 million, \$135.6 million, \$143.8 million, and \$144.1 million for FYs 1998 through 2001, respectively. Expenditures for Child Care services from the Community Initiatives appropriation were \$9.4 million, \$10.0 million, \$4.9 million, and \$5.2 million for FYs 1998 through 2001, respectively.

**Program Expenditures from Community Initiatives
Fiscal Years 1998 - 2001**

Programs That Had Their Own Line-Item Appropriation Elsewhere in DSS' Budget

Child Care	\$29,502,368
Grandparents as Foster Parents	\$11,516,374
Food Stamp - Wage Supplementation	\$2,685,681
FAMIS	\$2,551,017
Aging	\$1,293,949
Independent Living, MC+, and ARCHS	\$1,483,619

It can be difficult to determine the total costs for a program within the Department of Social Services if it is funded from various appropriations. It can also be misleading for someone to assume that the expenditure totals for a program are contained solely within one budget line item. If specific program expenditures were limited to a single budget line item, it would be more apparent what the true expenditures are for these programs from year to year.

The Oversight Division recommends the Legislature direct the Department of Social Services to arrange its budget to account for all like programs within a similar line item appropriation. For example, if an appropriation exists for child care services, then all expenditures for that program should come from that single appropriation total. This would simplify tracking total expenditures, by program, within DSS.

Comment #6 - The Department of Social Services expended monies for programs which do not appear to be directly related to the central objective of Community Initiatives.

According to the Department, they utilize Community Initiatives as a funding source to test innovative programs and experiment with new concepts that, while varied in their approach, share the common goal of getting people off the public assistance and into jobs. The appropriation is used to support expansions in the time tested reform programs like work support and improve the access to child care. However, when Oversight reviewed some of the programs funded by Community Initiatives, we were unable to make the connection to the common goal of getting people off of public assistance and into jobs. For instance, Grandparents As Foster Parents, Aging, and others appeared to have separate goals and objectives. In Fiscal Year 2002, the Department has discontinued funding some of these programs from Community Initiatives appropriations.

Oversight recommends the Department continue to move toward funding only programs with a common goal of moving people off the public assistance and into jobs. This will make future evaluation of the Community Initiatives as a whole more feasible and will create less confusion in the budget process.

Comment #7 - Financial improprieties may have occurred in the operation of one of the Bootheel Initiatives contract vendors during the evaluation period.

Oversight attempted to review the financial information of one of the contract vendors that provided services as part of the Bootheel Initiatives. From Fiscal Year 1998 (exact start date is not known to Oversight) until May 31, 2001, this contract vendor had one Executive Director. When the new Executive Director assumed his duties on June 7, 2001, he found that the hard drive on the office computer had been wiped clean of financial records and that the most recent audited financial statement was for fiscal year ended June 30, 1999. The new Executive Director provided Oversight a copy of the most recent audited financial statement (FYE 06/30/99) but was unwilling to share or grant access to any other financial records because he has not been able to confirm their validity.

Oversight's review of the audited financial statement and management letter for fiscal year ended June 30, 1999, revealed the following potential red flags of financial mismanagement:

- An accounting system that was not reliable for processing financial information for grants, and was inadequate to provide for identifying expenditures of program funds separately for each award or grant.
- Two instances of noncompliance suggesting potential double-dipping of grant monies.
- The Board of Directors was not receiving monthly financial reports.
- Bank reconciliations were not reviewed by a responsible official.
- No cash receipt log was maintained.
- Bank overdraft charges reported as a liability on June 30, 1999.
- Negative net assets reported on June 30, 1999.

A significant amount of taxpayer money was available for mishandling. From the Community Initiatives appropriation, alone, the contract vendor received \$873,999 during the evaluation period (\$690,799 as a subcontractor under the SEMO contract with DFS and \$183,200 as a vendor under RFP B3Z01047).

The Oversight Division recommends that the Department of Social Services include language, in all of their contracts, that requires contract agencies and subcontractors to submit audited financial statements on a yearly basis. DSS should follow-up on any instances where a contractor does not submit a financial statement in a timely manner.

The Oversight Division further recommends that the Division of Family Services conduct an internal audit of the contract vendor for the period October 1, 1998, through May 31, 2001.

Comment #8 - The Department of Social Services' Division of Family Services has transferred fiduciary and decision-making authority in Jackson County to a not-for-profit corporation.

In Jackson County, welfare reform efforts are coordinated through the Greater K.C. LINC, Inc. (LINC). This public/private partnership has designed a welfare-to-work system which strives to optimize local input and flexibility in decision-making. LINC works closely with Jackson County Income Maintenance and the community to provide a forum for decision-making.

One example of how Jackson County is treated differently from the rest of the state is in the administration of case management services which provide assistance for Temporary Assistance families. The Case Management contract for Jackson County (RFP B900348) was separately written and constructed specifically for Jackson County. The contract contains language that enables LINC to assume some of the same administrative capacities that the DFS possesses in the Case Management contract (IFB B700828) for the rest of the state. The main difference between the two contracts is that, in Jackson County, all coordinating, reporting, and invoicing activities are submitted to LINC rather than to DFS. DFS does not monitor the Jackson County Case Management providers (there are no provisions in RFP B900348 that require the DSS to monitor LINC) – an employee of LINC does. DFS' central office only gets involved with payment issues involving the database.

The appearance of preferential treatment exists as a result of DFS' relationship with LINC. As of April 2001, there were 21,194 individual TANF caseloads in Jackson County

as opposed to 51,916 in St. Louis City and County. Yet with more than double the caseload in St. Louis, the DFS maintains its central role as it does in the remaining service areas in the state.

It appears as if DFS has carved Jackson County out of their oversight responsibility. The transference of fiduciary responsibility to LINC is not without cost. In fiscal years 2000 and 2001, DFS paid LINC a total of \$1,131,899 for staffing LINC's communication, website and finance areas as outlined in Amendment 10 to the Caring Communities Agreement. Included in Amendment 10 was funding for LINC's Director of Communications, Controller, Professional Development Coordinator, Business Employment Manager, Work Force Issues Specialist, Website/Public Relations Administrator, Full Time Trainer, an Account Clerk , and fringe benefits at 30%. LINC also claimed and was paid an administrative fee of 6% (\$33,041) in Amendment 10. With regard to the Case Management example, the DFS paid LINC \$27,825 (\$26,250 for salary and \$1,575 for LINC's administrative fee), in fiscal year 2000 and 2001, for a staff person to process the billings.

Moreover, in addition to the cost of relinquishing responsibility for Jackson County welfare reform activities to LINC, the DFS admitted that they have not monitored LINC. It appears that an unusual amount of trust has been placed with LINC which has received a total of \$15.6 million (from the Community Initiatives appropriation) in the past three fiscal years, combined. LINC is able to monitor and establish the provider activities without any state intervention. This issue is of concern because without the state monitoring and observing these operations, unsatisfactory provider services can go undetected while activities that may improve provider services can not be specifically addressed.

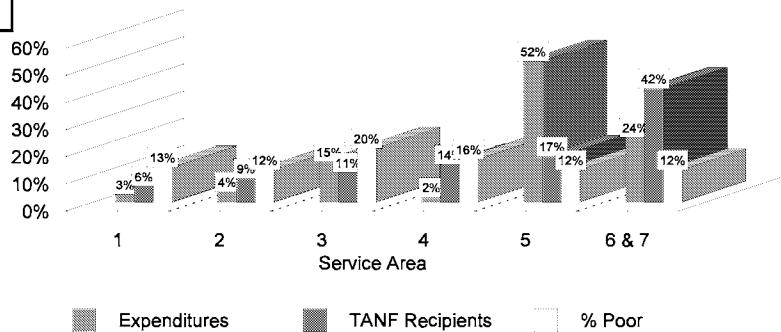
The Oversight Division recommends the Legislature consider the actions of DFS relinquishing its authority over welfare efforts in Jackson County and determine if changes need to be made.

The Oversight Division recommends that as long as LINC continues to function in the role as fiscal agent for Jackson County, that DFS demonstrate considerable monitoring efforts with respect to finances as well as service outcomes.

**Comment #9 -
Community Initiatives
program expenditures
for Fiscal Year 2001
suggest that the DFS did
not effectively distribute
resources across the
state.**

The Oversight Division correlated the amount of expenditures to the TANF population for each of the DFS service areas (combining St. Louis City and County into one) to determine if DFS had allocated resources effectively.

FY 2001



Only 59% of total expenditures for FY 2001 were traceable to a specific service area. The ratio of expenditures to TANF Recipients, by service area, indicates that the Bootheel (Service Area 3) and Jackson County (Service Area 5) may have been over-funded while Southwest Missouri (Service Area 4) and St. Louis City and County (Service Areas 6 & 7) may have been under-funded. A review of poverty rate percentages for each Missouri county, prepared by the US Census Bureau (Small Area Income and Poverty Estimates), adds support to the finding that Jackson County was over-funded and Southwest Missouri was under-funded.

If the goal of the Community Initiatives program is to move people off welfare or prevent those at risk from becoming welfare dependent, state resources should be directed to those service areas that have the greatest need. If the DFS doesn't require or review data that would assist them in determining the best allocation of resources, then the effectiveness of the entire appropriation is in question.

The Oversight Division recommends that the DFS direct resources to the task of measuring its program expenditures and outcomes to indicators such as the number of TANF recipients and the poverty rate for each service area on an annual basis and redirect its resources accordingly.

**Comment #10 - The
Division of Family
Services paid LINC an
excessive amount for
administrative expenses
in fiscal years 2000 and
2001.**

DFS is double-paying LINC for administrative expenses by paying for LINC's administrative infrastructure in addition to paying administrative fees. For FY 2000 and 2001, the DFS amended LINC's Caring Communities contract to include 15 staff positions, 14 of which are administrative positions. In addition to the funding of administrative positions, DFS paid LINC a six percent administrative fee for each contract amendment plus additional amounts for administrative expenses such as LINC's weekly newsletter and postage, travel, equipment, and supplies.

For FY 2001, LINC received \$661,040 for the personnel cost of 14 administrative positions, \$407,413 for administrative fees, and \$200,370 for various administrative expenses, resulting in nearly \$1.3 million. Oversight estimates the cost for FY 2000 to be approximately the same, resulting in \$2.6 million for the two year period. A review of LINC's Form 990, Return of Organization Exempt from Income Tax, for the year ended June 30, 2000, revealed LINC made an overall net profit of \$1.9 million for the year and had net fund balances of \$9.3 million.

This appears to be excessive. The Code of Federal Regulations, Part 98, Section 98.52, pertaining to the Child Care and Development Fund, states that not more than five percent of the aggregate funds expended by the Lead Agency shall be expended for administrative activities. In FY 2001, LINC expended over 17% of the funding they received from the Community Initiatives appropriation for administrative activities.

Oversight recommends the Legislature consider reducing appropriations to represent a decrease in the amount funded to LINC for administrative expenses.

Comment #11

Certain individuals are paid a full-time salary by the state, yet represent themselves as key members of contracted entities' staff.

The current Executive Director of LINC and the previous Executive Directors of Area Resources for Community and Human Services, and Columbia/Boone County Community Partnership, each operating as a contracted Caring Communities partner for DFS, is/were state employees receiving full state benefits.

All three of the Executive Directors/State Employees signed and negotiated contracts with the DFS on behalf of their respective non-profit corporations.

LINC's Executive Director's salary, which is more than the Director of the Department of Social Services, is paid by the state but subsidized by LINC. In fiscal year 2000, LINC "donated" \$26,000 to the Department of Social Services for the Executive Director's salary.

LINC also took the position that because the Executive Director was a state employee they did not have a responsibility to disclose her as a key employee in their 1999 Form 990, Return of Organization Exempt from Income Tax. The IRS defines a "key employee" as any person having responsibilities or powers similar to those of officers, directors, and trustees.

RSMo 105.454(3) prohibits state employees from participating in any manner in which he/she attempts to influence any decision of any agency of the state when he/she knows the result of the decision may be the acceptance of the performance of a service to that agency for consideration in excess of \$500 with which he/she is associated unless the contract is competitively bid.

RSMo 105.454(4) prohibits state employees from performing any services during the time of his/her employment for any consideration from any person, firm, or corporation, other than the compensation provided for the performance of his/her official duties, by which service

he/she attempts to influence a decision of any agency of the state in which he/she is an officer or employee or over which he/she has supervisory power.

Executive Order 92-04 states that Executive branch employees shall avoid any interest or activity which improperly influences, or gives the appearance of improperly influencing, the conduct of their official duties.

The situation of the State Employees signing and negotiating contracts on behalf of their non-profit corporation appears to be the equivalent of the DFS contracting with itself. The appearance created by the relationship between DSS and these three employees is misleading at best.

Oversight recommends that Department of Social Services discontinue the practice of “loaning” state employees to outside parties. Oversight also recommends that the Department of Social Services discontinue negotiating contracts with its own full-time employees and discontinue accepting “donations” from contracted entities for the purpose of bolstering key employees’ salaries.

Oversight further recommends that the Committee on Legislative Research consider following-up with the Missouri Ethics Commission to determine if any state laws are being violated as a result of the relationships described.

APPENDIX 1



BOB HOLDEN
GOVERNOR

MISSOURI
DEPARTMENT OF SOCIAL SERVICES
DIVISION OF BUDGET & FINANCE

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January 16, 2002

Mickey Wilson, CPA
Acting Director, Oversight Division
Committee on Legislative Research
Room 132, Capitol Building
Jefferson City, MO 65101

Dear Mickey:

I am submitting responses to the findings of the Community Initiatives performance review that your office recently completed.

Please feel free to call me if you or your staff have any questions concerning the materials I've enclosed.

Sincerely

Brian D. Kinkade
Director

BDK:jd

Enclosure

C: Steve Renne
Denise Cross

**DSS Responses
to
Oversight Division Performance Review of the Community Initiatives Program**

January 2002

Comment # 2

The Division of Family Services (DFS) does not actively monitor performance measures for several programs within the Community Initiatives appropriation.

Oversight Staff Recommendation

The Oversight Division recommends that the DFS implement performance expectation language in all of their Community Initiative contracts. The Oversight Division further recommends that the DFS verify monies are being spent for the intended purpose and results are being achieved. The DFS should examine records of contractors and subcontractors sporadically on a sample basis.

DSS Response

DSS agrees and will continue its efforts to improve regular performance monitoring of its contracts.

DSS requires vendors to submit adequate documentation when they present an invoice for payment. This documentation is kept in the department's paid documents file for audit purposes. If supporting documentation is incomplete or inaccurate, DSS staff work with the vendor to correct the deficiency so that payment can be made.

Comment #3

The DFS circumvented the statutory competitive bid process when they contracted with Southeast Missouri State University.

DSS Response

DSS does not agree. The DSS Bootheel Initiative contract with Southeast Missouri State University (SEMO) complies with Chapter 34 RSMo.

In the summer of 1998, DSS, working with southeast Missouri legislators, began an effort to better meet the needs of TANF and low-income families living in the Bootheel. A major barrier to the expansion of community-based social services in the Bootheel was the lack of a single entity (i.e., a local government or an area private non-profit organization, etc.) that had the ability to effectively represent the needs of the poor in the Bootheel region as a whole. The department did not have the presence to engage Bootheel citizens in a dialogue directly.

SEMO, through its College of Health and Human Services, was engaged by the department as a partner in the Bootheel initiative to overcome this barrier. SEMO's participation gave DSS a basis in which to engage the southeast Missouri region in a discussion on the needs of its poor and the ability of area service providers to meet those needs. SEMO had the prerequisites for this work in that it was an established, stable and impartial southeast Missouri institution. Further, the goals of the Bootheel Initiative are consistent with SEMO's mission and strategic planning priorities, which call for the University to assume a leadership role in developing the cultural, economic, social, health, and educational resources of southeast Missouri.

Under the contract, SEMO was specifically responsible for the following activities in support of DSS's initiative to enhance its service to the TANF and low-income residents of the Bootheel area:

- Service coordination, planning and evaluation;
- Needs assessment and services inventory; and
- Resource development

DSS did not contract with SEMO to avoid Chapter 34 requirements, but rather to benefit from the University's institutional presence in the region and human services expertise existing in its College of Health and Human Services. Therefore, the implication that SEMO's role under the contract was only administrative is incorrect. SEMO provided DSS with the capacity it needed to effectively engage the local community in a dialogue on establishing and enhancing community-based and community directed services

for the area's low-income families. SEMO's role and responsibilities under this contract exceeded that of an administrative agent.

Two other facts are worthy of note on this subject. First, although DSS did subcontract for services to the citizens of the Bootheel through its SEMO contract, SEMO conducted two extensive competitive RFP processes to provide specific services. There was active competition for the subcontracted service dollars that DSS spent in the Bootheel through the SEMO contract. Second, the DSS contract with SEMO was subject to OA Division of Purchasing and Materials Management (DPMM) review because its value exceeded \$25,000. DPMM assigned this agreement contract number AOC9000239.

The DSS contract with SEMO expired September 30, 2000.

Comment #4

To minimize the risk of paying false claims, the DFS should tighten its procedure for paying Case Management Incentive bonuses by revising the language in future requests for Proposals for Case Management.

Oversight Staff Recommendation

The Oversight Division recommends that DFS revise the language, as it relates to payment of incentive bonuses, in any future Requests for Proposals for Case Management to include the following

- Employers must sign and date the employment verification form
- Paycheck stubs should accompany all claims for incentive bonuses.

The Oversight Division also recommends the DFS create an uniform employment verification form to be used by all employers.

DSS Response

DSS partially agrees. Oversight's sample review found no inappropriate payments or denial of payments. DSS case management contracts require vendors to retain all books, records and other documents relevant to the contract (including paycheck stubs and other documents to validate employment claims). By the terms of the contract these records are open and subject to review by the state and federal auditors on request. To be paid, vendors had to verify in writing the employment status of the persons whose cases they managed. If the validation provided was insufficient, DFS would work with the vendor to obtain proper validation. Payment was denied if employment could not be validated.

DFS will require a unified employment verification form in future Requests for Proposals for contracted case management as recommended by the Oversight staff.

Comment #5

Some of the programs that were funded from the Community Initiatives appropriation had their own line-item appropriation elsewhere in the Department of Social Services budget making total program costs difficult to measure.

Oversight Staff Recommendation

The Oversight Division recommends the Legislature direct the Department of Social Services to arrange its budget to account for all like programs within a similar line item appropriation.

DSS Response

DSS partially agrees. The purpose of the Community Initiatives appropriation was to provide a flexible funding pool that could meet a variety of needs. By design and intent, such a pool is not to be limited to a specific line item appropriation. DSS sets up reporting categories in the state accounting system so that expenditures from pooled appropriations like Community Initiatives can be tied back to other program expenditures of a similar nature.

When allocations are fixed for a specific line-item purpose, DSS concurs that a transfer should be made in a following year. DFS transferred appropriation authority for several specific program activities that were supported by the Community Initiative line item to regular program line items in HB 11 in the FY 02 budget.

Comment #6

The Department of Social Services expended monies for programs that do not appear to be directly related to the central objective of Community Initiatives.

Oversight Staff Recommendation

Oversight recommend the Department continue to move toward funding only programs with a common goal of moving people off public assistance and into jobs. This will make future evaluation of the Community Initiatives as a whole more feasible and will create less confusion in the budget process.

DSS Response

DSS agrees.

Funding for the Division of Aging grants mentioned in the findings related to Comment #6 was added to the Community Initiatives appropriation by the legislature and not at the request of the department. The Grandparents as Foster Parents program was first supported from the Community Initiatives appropriation in FY 01 at the department's request. It was transferred to a separate line item in the following year.

For Fiscal Years 1997 through 2001 the department submitted a utilization plan for the Community Initiatives appropriation to OA Budget and Planning, the House Budget Committed Chair and the Senate Appropriation Chair at the beginning of each fiscal year. This submission was required by language in HB 11 for each of these years. DSS only used the Community Initiatives appropriation for programs and activities consistent with the spending plan submitted for the year. The legislature did not require DSS to submit spending plans for this appropriation for Fiscal Year 2002.

Comment #7

Financial Improprieties may have occurred in the operation of one of the Bootheel Initiatives contract vendors during the evaluation.

Oversight Staff Recommendation

The Oversight Division recommends that the Department of Social Services (DOS) include language in all of their contracts that requires contract agencies and subcontractors to submit audited financial statements on a yearly basis. DOS should follow-up on any instances where a contractor does not submit a financial statement in a timely manner.

The Oversight Division further recommends that the Division of Family Services conduct an internal audit of the contract vendor for the period October 1, 1998 through May 31, 2001.

DSS Response

DSS does not agree. DSS paid Bootheel service providers for the goods or services they delivered pursuant to signed contracts and at set prices. DSS did not pay vendors until they submitted an invoice for services rendered. Under the standard terms of its contracts, vendors providing service to DSS must retain documentation supporting their invoices for a period of time to allow for review and audit by the state if it is necessary.

DSS notes that the "red flags" reported by oversight pertain to the vendor's internal financial management practices. That is, findings pertain to how the vendor accounted for and handled its revenues, which presumably would include monies paid to it for service rendered to the state (DSS). Such information may be relevant if the DSS had made grants to the entity. However, the DSS did not make grants to Bootheel service providers. DSS paid for contracted services rendered. None of the findings indicate that the entity in question was improperly paid for its services delivered under its contracts with DSS or SEMO.

DSS contracts for the purchase of goods and services from thousands of private vendors and these vendors are only paid after they successfully fulfill their contractual obligations. DSS does not have the resources to annually review its contractor's annual audits and suggests that such a review would not be cost-effective.

DSS requests that Oversight staff forward any additional specific information that indicates contractual provisions may have been violated so that it can determine whether further investigation is warranted.

Comments #8 and #10

The Department of Social Services' Division of Family Services (DFS) has transferred fiduciary and decision-making authority in Jackson County to a not-for-profit corporation.

The Division of Family Service paid LINC an excessive amount for administrative expenses in Fiscal Years 2000 and 2001.

Oversight Staff Recommendations

The Oversight Division recommends the Legislature consider the actions of DSF relinquishing its authority over welfare efforts in Jackson County and determine if changes need to be made.

The Oversight Division recommends that as long as LINC continues to function in the role as fiscal agent for Jackson County, that DFS demonstrate considerable monitoring efforts with respect to finances as well as service outcomes.

Oversight recommends the Legislature consider reducing appropriations to represent a decrease in the amount funded to LINC for administrative expenses.

DSS Response

DSS does not agree. DSS believes that the strong partnership it has forged with LINC offers the greatest opportunity for success in helping Jackson County's TANF families attain self-sufficiency. DSS is accountable for the successful delivery of all of the services it is required to deliver by law and regulation. LINC is engaged by DSS as a partner to achieve DSS's mission in the KC area.

LINC embodies the system reform that DSS believes is critical for the most effective delivery of social services. Simply put, the concept is to engage and support communities that take an active role in identifying the needs of its citizens and in developing ways meet those needs. This can be contrasted with the traditional service delivery model that relies on state-administered one-size-fits-all programs that may or may not actually address the real issues unique to a particular community.

Several prominent national groups including the National Governor's Association (2000) and the Ford Foundation, Harvard University John F. Kennedy School of Government (1998 and 1999) have recognized LINC for its work as a leader in social services system reform.

By engaging the community in the way DSS has with LINC for welfare reform in Jackson County, the resources of the community can be tapped and directed toward accomplishing the goals the state and the community share. This is commonly referred to as "leveraging". It is the state's financial commitment that is often the catalyst around which community resources can coalesce. These resources might be financial, but are more commonly in-kind contributions of time, physical space, volunteered talent or the ability to orchestrate funding streams flowing to the community from state, federal and local government sources so that they are used more effectively to meet the needs of the community.

Obviously, the state can only engage the community to the extent there is the capacity to do so. Generally speaking, local capacity refers to the combined interest, involvement and commitment of the communities civic leaders, businesses, faith-based organizations, schools neighborhood associations, etc. to work together to address the needs of their community.

The Oversight staff state in its findings related to Comment #8 that DSS has engaged LINC to a greater degree than any other community partnership in the state. This is true and capacity is the reason. No partnership in the state can approach the level of involvement and commitment that Jackson County's community leaders bring to the table with LINC. LINC is a mature organization that offers the added benefit of being a professionally managed, not-for-profit corporation. LINC's capacity is far greater than any other community partnership in the state.

In its findings related to Comments #8 and #10 the Oversight staff comment on LINC "administrative expenses". DSS contends that in light of the goal to help develop, build and maintain local capacity, it is simplistic to characterize DSS's support for LINC operating expenses as administrative costs. It should be noted that the costs noted support many LINC initiatives, including welfare reform, before and after school child care and Educare and other school and neighborhood based efforts geared toward improving the lives of the area's children and families. By supporting LINC's infrastructure needs, the state is creating the environment in which the community can work with the state and to leverage the resources of the to achieve the outcomes both share.

In regard to outcomes, welfare reform performance in the Jackson County area speaks for itself. Since the inception of DSS's welfare reform effort in 1993, TANF participation in Jackson County has been reduced by 50%. Also, of the 5,989 Jackson County families receiving TANF subject to the five-year lifetime benefit limit when federally mandated time limits started, only 210 (3.15%) are still receiving assistance today and are at risk of losing their assistance in July 2002. In contrast, 1,213 families in St. Louis City are at risk of exhausting their lifetime benefit out of 9,039 receiving benefits when time limits began (13.42%).

Finally, it is unclear whether Oversight staff is alleging that DSS is in violation of federal regulations limiting administrative expenses charged to the Child Care and Development Block Grant in its findings related to Comment #10. DSS does not charge administrative expenses to the CCDBG in excess of allowable limits. The reports on which claims for these funds are made are available for Oversight staff to review. Further, it should be noted that DSS's use of CCDBG funds is reviewed annually for compliance with federal law and regulation by state and federal auditors.

Comment # 9

Community Initiatives program expenditures for Fiscal Year 2001 suggest that DFS did not effectively distribute resources across the state.

Oversight Staff Recommendation

The Oversight Division recommends that the DSS direct resources to the task of measuring its program expenditures and outcomes to indicators such as the number of TANF recipients and the poverty rate for each service area on an annual basis and redirect its resources accordingly.

DSS Response

DSS partially agrees. DSS does not disagree in general with the Oversight recommendation, but suggests that the capacity of the community to effectively apply the resources available to needs of the community is equally important. DSS discusses the issue of capacity in its response to Comments #8 and #10 (above.) Because of LINC, there is greater capacity to effectively deliver community based services in Jackson County (Area 5) than in other areas of the state.

Two initiatives unique to Jackson County (Area 5), Before and After School Day Care and contracted case management, accounted for nearly \$6 million in expenditure in FY 2001 could be undertaken only because of the local capacity that exists because of LINC. Before and After School Day Care alone accounted for \$4.8 million in FY 2001. The Contracted Case Management project with LINC was completed in FY 2001 and spending authority for the on-going Before and After School Day Care program was transferred to the Child Care appropriation in FY 2002.

Before and After School Day Care program offers a good example of how the local capacity of an entity like LINC can work quickly and effectively to address community needs. After the Kansas City School District announced that budget constraints would force it to end the before and after school day care program it had operated for 12 years, a community task force composed of parents, community leaders, and service providers convened to find a way to continue the program. From this community-driven initiative emerged a plan for using schools before and after the school day to provide safe, productive and structured activities for children of the school district. LINC was identified as the program coordinator; Department of Social Services agreed to provide funds for services. Because of the efforts of the community and state working together, more than 4,000 children have access to structured and supervised activities during times they may otherwise be unattended.

After accounting for the Before and After School Day Care program and contracted case management, Community Initiatives expenditures in Jackson County (Area 5) in FY 01 were 15% of total expenditures that were linked to a particular service area (\$2.4 million Jackson County of \$15.9 million total.)

Oversight's finding that 59% (\$15.9 million) of Community Initiative expenditures were associated directly to one particular service area is correct. It should be noted, however, that the remaining expenditures, which totaled \$11.3 million supported "statewide" initiatives (e.g., Grandparents as Foster Parents, Earned Income Tax Credit, Breast and Cervical Cancer Program) that benefited persons in all areas of the state.

Comment # 11

Individuals are paid a full-time salary by the state, yet represent themselves as key members of contracted entities' staff.

Oversight Staff Recommendation

Oversight recommends that Department of Social Services discontinue the practice of "loaning" state employees to outside parties. Oversight also recommends that the Department of Social Services discontinue negotiated contracts with its own full-time employees and discontinue any acceptance of "donations" from contracted entities for the purpose of bolstering key employees' salaries.

Oversight further recommends that the Committee on Legislative Research consider following-up with the Missouri Ethics Commission to determine if any state laws are being violated as a result of the relationships described.

DSS Response

DSS is reviewing. In her performance review of the Caring Communities program, State Auditor Claire McCaskill reviewed the local community partnership operations in light of the fact that some persons working at the partnerships are paid for by the state as state employees. Auditor McCaskill issued the following recommendation:

"We recommend the Department Directors develop appropriate cooperative agreements or memoranda of understanding between the state and private partnerships for the use of state employees." Missouri State Auditor Report No. 2001-107, "Management of the Caring Community Program", p. 22.

The following response was provided:

"The Department of Social Services will be reporting on and clarifying the relationship and duties of state staff who are partnership personnel. This will be completed by the conclusion of FY 02." Ibid.

As recommended by Auditor McCaskill, the department will, by the end of the current fiscal year review and clarify the roles, responsibilities and duties of any and all state employees who work in local community partnerships.

RECEIVE

JAN 25 2002



State of Missouri
OFFICE OF ADMINISTRATION

Bob Holden
Governor

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Jacquelyn D. White
Commissioner

January 24, 2002

Mickey Wilson, CPA
Acting Director
Committee on Legislative Research
Oversight Division
State Capitol Building
Room 132
Jefferson City, Missouri 65101

Dear Mr. Wilson:

In response to your letter of January 17, 2002, the Division of Purchasing and Materials Management will review the requirements necessary to do business with the State of Missouri. If appropriate, the DPMM will revise its solicitation requirements to include proof that bidders are in good standing to do business in the state.

Sincerely,

Joyce Murphy
Joyce Murphy
Deputy Commissioner

CC: Jacqueline D. White
Jim Miluski

APPENDIX 2

Oversight Response to Agency Response

Comment #3

Oversight disagrees that there was “active” competition for the subcontracted service dollars that DSS spent in the Bootheel through the SEMO contract. According to SEMO, in the first year of the contract (10/01/98 through 09/30/99) SEMO did not issue an RFP for services because of time constraints and lack of familiarity with the RFP process. SEMO stated that, in the first year, they contracted with three vendors with whom they had an established work history. SEMO did issue two RFPs for the period 10/01/99 through 09/30/00.

Comment #4

Oversight questions the DSS’ unwillingness to tighten its procedures to prevent paying false employment bonuses. While it is true that Oversight didn’t find any inappropriate payments, there was not sufficient documentation to conclude that payments were, in fact, appropriate.

Comment #7

The DSS notes that the standard terms of its contracts include the provision that vendors must retain documentation supporting their invoices for a period of time to allow for review and audit by the state if necessary; however, DSS does not indicate how records could be reviewed, after the fact, when supporting documentation does not exist.

Oversight has no further specific information to share with the DSS in order for them to determine if an investigation is warranted due to the scope limitation imposed by said vendor. Oversight contends that an investigation should be conducted by a state authority to ensure that taxpayer dollars were not fraudulently mishandled.

Comment #8 and #10

Oversight notes that the DSS has provided several noteworthy comments about its relationship with LINC; however, they did not address the issue of double-paying administrative expenses to an, undeniably, wealthy non-profit corporation.

Oversight referenced the Federal Regulation for the Child Care and Development Block Grant (CCDBG) merely for comparison purposes as it relates to administrative expenses. Oversight is concurrently completing a review of Social Services’ CCDBG which will be issued in the 2002 legislative session.

Comment #11

Oversight appreciates the respect the DSS has for Auditor McCaskill’s work yet still strongly believes that the Committee on Legislative Research should consider following-up with the Missouri Ethics Commission.

